BEFORE THE

PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAIIAN ELECTRIC COMPANY, INC.	)	DOCKET NO. 2008-0083
	)	
For Approval of Rate Increases and Revised Rate Schedules and Rules	)	

DEPARTMENT OF DEFENSE'S RESPONSE SUBMISSION

TO HAWAIIAN ELECTRIC COMPANY, INC.'S INFORMATION REQUESTS

AND

CERTIFICATE OF SERVICE

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ATTORNEY FOR THE
DEPARTMENT OF DEFENSE

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COMES NOW, DEPARTMENT OF DEFENSE by and through its undersigned attorney and hereby submits its Response Submission to Hawaiian Electric Company, Inc.'s Information Requests.

DATED: Honolulu, Hawaii, May 15, 2009.

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ATTORNEY FOR THE
DEPARTMENT OF DEFENSE

Docket No. 2008-0083

Hawaiian Electric Company, Inc.
Information Requests to
Department of Defense ("DOD")

HECO/DOD-IR-101 Ref: DOD T-1, page 30, line 10 to page 31, line 1

a) What periods of time would the DOD propose to be used instead in a regression analysis?

b) Would reducing the predictive ability of the forecast further the objective of arriving at a usable vacancy rate?

RESPONSE: (a) DOD is not proposing that a regression analysis be used. (b) See response to part a.

HECO/DOD-IR-102 Ref: DOD T-1, page 31, lines 4-5

Please explain how well the mean-derived rate of 3.3%, in the case of describing vacancy rates, predicts future vacancies.

RESPONSE: As explained at DOD T-1, page 30, a vacancy rate of approximately 3.3% is believed to be more representative of historical and recent actual experience, as supported by the analysis summarized in the following tables:

Date	Vacancy Rate
9/30/2006	-8.02%
12/31/2006	-7.30%
3/31/2007	-4.88%
6/30/2007	-2.67%
9/30/2007	-3.66%
12/31/2007	-3.39%
3/31/2008	-3.63%
6/30/2008	-2.35%
7/31/2008	-3.06%
9/30/2008	-4.14%
10/31/2008	-3.23%

Averages	Vacancy Rate
Average of all data points	-4.21%
2007 average (12/31/06 through 12/31/07)	-4.38%
2008 quarterly average, 10/31/08 used in place of 12/31/08 which was not considered by HECO)	-3.35%
Average of all data points from 6/30/2007 through 10/31/08	-3.27%

HECO/DOD-IR-103

Ref: Exhibit DOD-119 Depreciation and Amortization

On page 24-25 of DOD T-1, the DOD proposes to re-schedule the expiring 2009 amortization over a two year period (approximately HECO's rate case filing period). Exhibit DOD-116 provides the calculation of the $825,000 downward adjustment to incorporate its proposal. On Exhibit DOD-119, the DOD proposes a $2,198,000 downward adjustment to the Company's 2009 test year depreciation and amortization expense estimates based on actual 2008 plant balances provided by the Company's response to CA-IR-417. Please explain the following:

a. The $2,198,000 downward adjustment includes the total downward adjustment for the expiring 2009 amortization of

$1,924,000. Please confirm whether the $2,198,000 downward adjustment should be revised to exclude the $1,924,000 downward adjustment for expiring 2009 amortization. If unable to confirm, please explain why the adjustment is appropriate.

b. If the response to part (a) of this information request is affirmative, please provide an updated Exhibit DOD-119.

RESPONSE:

(a) DOD has been unable to confirm that the $2,198,000 downward adjustment includes the total downward adjustment for the expiring 2009 amortization of $1,924,000. The intention of the DOD adjustments was not to double count an adjustment for depreciation and amortization expense, but rather to reflect a normal, going-forward level of 2009 depreciation and amortization that would not entail ratepayers overpaying for an expiring amortization.

(b) If there is a double-count between Exhibits DOD-116 and DOD-119 as HECO seems to allege, DOD would prefer to keep the adjustment shown on DOD-119 and hold the adjustment shown on DOD-116 as a secondary alternative recommendation.

HECO/DOD-IR-104 <u>Ref: DOD T-1, pages 31-36 Pension Cost</u>

a. Based on the pension tracking mechanism adopted by the Commission and the DOD's position that the pension expense not be adjusted to the actual NPPC for 2009, please explain the DOD's position for not adjusting the regulatory liability balance as of the end of the test year to reflect an increase in a pension regulatory asset for the difference between the NPPC in rates ($17,711,000) and the actual NPPC for 2009 ($31,489,000).

b. Based on the DOD's position for not reflecting the actual NPPC for 2009 and continuing to utilize the NPPC in rates from the 2007 rate case, please provide the DOD's calculation of the pension regulatory asset under the pension tracking mechanism at the end of 2010 and 2011, if it is assumed the NPPC for 2010 and 2011 would be the same as the actual NPPC for 2009 of $31,489,000.

c. Based on the information known today, that the interim decision has not yet become effective, please explain the DOD's rationale for including the amortization of the pension regulatory asset as of January 1, 2009 into the test year estimates.

RESPONSE: (a) The implementation of the pension mechanism from HECO's last rate case has now been coupled with a period of terrible performance of HECO's pension plan investments and a shockingly large increase in HECO's pension cost. HECO's latest pension NPPC at $31.489 million compares with the "currently in rates" NPPC level of $17.711 million, for a painfully shocking increase of almost 78 percent. The enormous increase in pension expense that has occurred due to the poor pension investment performance has, by means of the trackers and the resultant risk shift, now apparently become the sole responsibility of ratepayers. The situation presented in the current HECO rate case resulting from the huge increase in HECO's pension cost presents serious concerns to DOD as a HECO ratepayer. **DOD would like to see the impact of HECO's huge pension cost increase on ratepayers mitigated to the fullest extent possible.** One way of helping to mitigate the impact on ratepayers is to require HECO to absorb some of the rate base return impact caused by its huge increase in pension cost. DOD views the HECO revised amount for 2009 pension cost as abnormally high, and therefore not representative of a normal test year level of pension cost. DOD's direct filing treatment of the pension and OPEB expense increases reflected the same treatment as HECO proposed in its update: basically to acknowledge the large increase but not to embed the new abnormally high pension cost into the 2009 test year revenue requirement. The approach DOD applied in its direct filing was intended to reflect the same amounts that HECO used in its original and updated revenue requirement filings for the pension NPPC and OPEB NPBC. As explained in DOD T-1, at page 36, "This alternative was mainly selected for simplicity purposes, and also to help prevent the DOD from recommending a higher base rate increase than HECO is requesting. Selecting this alternative, as shown on DOD-121, reflects no net adjustment to pension or OPEB expense from HECO's filing."

b. DOD has not made such a calculation.

c. See response to part a.

HECO/DOD-IR-105 Ref: DOD T-1, pages 31-36 OPEB cost

a. Based on the OPEB tracking mechanism adopted by the Commission and the DOD's position that the OPEB expense not be adjusted to the actual NPBC for 2009, please explain the DOD's position for not adjusting the regulatory asset balance as of the end of the test year to reflect an increase in an OPEB regulatory asset for the difference between the NPBC in rates ($6,350,000) and the actual NPBC for 2009 ($6,943,000).

b. Based on the DOD's position for not reflecting the actual NPBC for 2009, please provide the DOD's calculation of the OPEB regulatory asset under the OPEB tracking mechanism at the end of 2010 and 2011, if it was assumed the NPBC for 2010 and 2011 would be the same as the actual amounts for 2009.

c. Based on the information known today, that then interim decision has not yet become effective, please explain the DOD's rationale for including the amortization of the pension regulatory asset as of January 1, 2009 in the test year estimates.

RESPONSE: See response to HECO/DOD-IR-104.

HECO/DOD-IR-106

Feed-in Tariff Consultant Fees

Based on HECO's response to CA-IR-343, does the DOD agrees that an adjustment need to be made for HECO's estimates to allocate a portion of the costs to HELCO and MECO?

RESPONSE: In general, where an expenditure by HECO benefits not only HECO but also its affiliates HELCO and MECO, it would be inappropriate and unfair for HECO's ratepayers to bear the full cost, and the affiliates HELCO and MECO should be allocated an appropriate portion of the costs.

HECO/DOD-IR-107

Ref: DOD T-1, Page 39 of 42, Section M FUTA Tax Reduction and DOD-124

Please explain why DOD-124 shows a reduction to payroll tax expense, when it appears that the DOD has agreed with the Company's position on including the effect of the 2009 R&D tax credit and consistency would require that the FUTA tax be left unadjusted as stated in response to CA-IR-361(b).

RESPONSE: DOD witness Smith may have misinterpreted HECO's responses as requiring the removal of the $16,000 FUTA tax impact in order to be consistent with the treatment of the R&D tax credit. The approximate $10,000 net operating income impact of this adjustment is approximately 0.000764 percent (0.00000764) on an adjusted rate base of $1,308,850,000. Consequently, whether a $16,000 adjustment to FUTA tax expense is or is not made in the current 2009 test year rate case is certainly not material to HECO's revenue requirement.

HECO/DOD-IR-108

Ref: DOD-111, pages 1-2, line 5

There are no "DOD Adjustments" indicated for the "Fuel" line item. Please confirm that the DOD accepts HECO's test year fuel expense estimate.

RESPONSE:

DOD-111 presents DOD's adjustment to the components of net operating income and as HECO points out, there are no adjustments on the "fuel" line. The adjustments on DOD-111 are carried forward to DOD-104, which shows that in preparing his adjusted net operating income, DOD witness Smith used HECO's estimate for fuel expense of $816.7 million, from HECO's Excel file workpapers for HECO T-23, Attachment 7. At the time of preparing DOD-111, however, Mr. Smith was aware that in prior HECO rate cases, the Consumer Advocate typically had sponsored a witness to specifically address HECO's fuel costs and fuel projections, making an independent analysis, and using information that would likely be more current than was utilized in HECO's direct filing. DOD witness Smith was also aware that significant changes have and had occurred since HECO made its initial estimate of test year fuel expense, including such changes as a reduced HECO test year sales forecast and significant decreases generally in fuel prices. A proper interpretation of the lack of an adjustment on DOD-111 for the "fuel" line item therefore is not that DOD accepts or agrees with HECO's estimate; rather the use of HECO's fuel amount by DOD witness Smith is not intended to constitute a recommendation either for or against that estimated amount for ratemaking purposes. In essence, at the time DOD-111 was prepared, DOD's witness Mr. Smith had effectively reserved judgment on HECO's proposed estimated amount for fuel. Now that he has had the opportunity to review the Consumer Advocate's direct testimony and recommendations, Mr. Smith believes that the estimate of $451.9 million on CA-101, Schedule C, page 1 of 4, would be a better approximation of 2009 test year fuel costs than HECO's original fuel expense estimate of $816.7 million, especially if a reduced 2009 test year sales forecast is going to be used to establish HECO's revenue requirement.

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing document was duly served upon the following parties, by personal service, hand-delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR sec. 6-61-21(d).

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